

Exhibit No.

Issues: *Building Rent Expense, Land, Administration & General Salary/Management Fees, Payroll and Income Taxes, Sludge Hauling, Vehicle Logs, Office Supplies and Non-Billing (Mailing of Annual Consumer Confidence Report), Customer Service and Business Operations*

Witness: Dennis Kallash

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Lincoln County Sewer & Water, LLC

Case No. SR-2013-0321

Missouri Public Service Commission

Surrebuttal Testimony

of

Dennis Kallash

On Behalf of

Lincoln County Sewer & Water, LLC

October 24, 2013

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SURREBUTTAL TESTIMONY
OF
DENNIS KALLASH
LINCOLN COUNTY SEWER & WATER, LLC
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

1 **WITNESS INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME.**

3 A. My name is Dennis Kallash.

4

5 **Q. ARE YOU THE SAME DENNIS KALLASH THAT PREVIOUSLY FILED**
6 **REBUTTAL TESTIMONY IN THIS CASE?**

7 A. Yes, I am.

8

9 **PURPOSE**

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. I will respond to the Rebuttal Testimony of Missouri Public Service Commission
12 Staff (Staff) witnesses Lisa M. Ferguson and Tammy Vieth, as it relates to certain
13 aspects of LCSW's operations. I will also respond to certain issues raised in the
14 Rebuttal Testimony of Office of the Public Counsel (Public Counsel) witnesses
15 William Addo and Ted Robertson.

16

17 **Q. WILL OTHER SURREBUTTAL TESTIMONY BE FILED ON BEHALF OF**
18 **LINCOLN COUNTY SEWER & WATER, LLC (LCSW)?**

1 A. Yes. Surrebuttal testimony will also be filed by Dale W. Johansen.

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BUILDING RENT EXPENSE

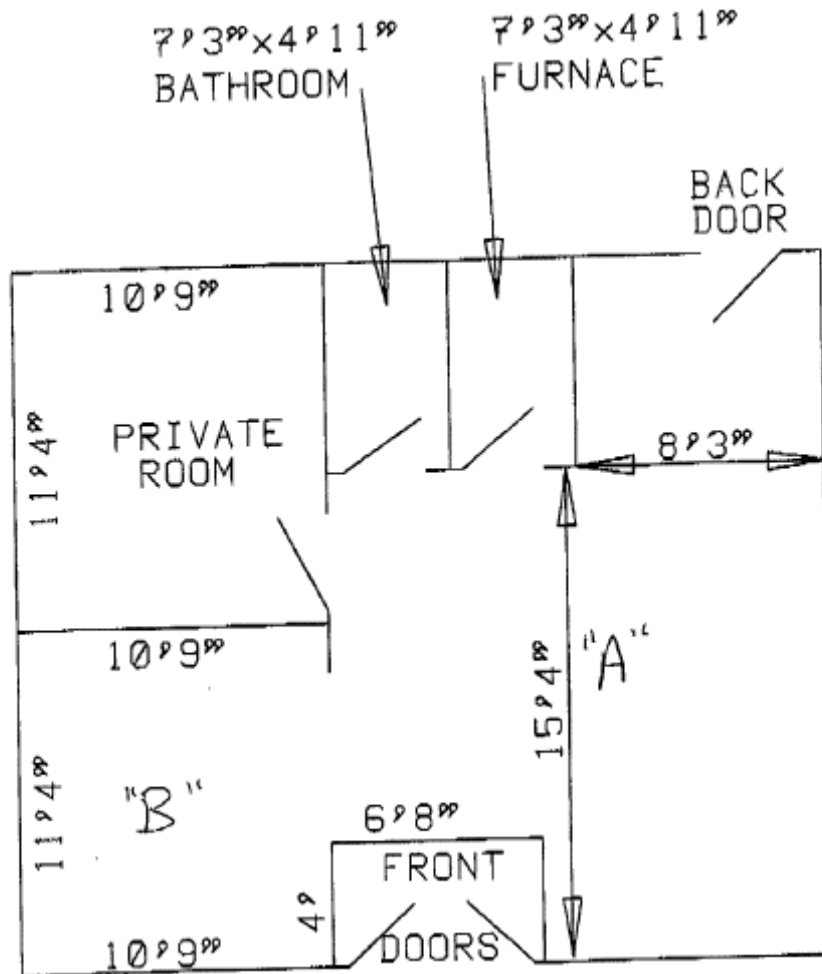
4 **Q. STAFF WITNESS FERGUSON STATES THAT DURING A VISIT TO**
5 **THE LCSW OFFICE ON JANUARY 18, 2013, IT APPEARED CERTAIN**
6 **ROOMS OF THE PROPERTY WERE NOT BEING USED FOR THE**
7 **UTILITY BUSINESS (REBUTTAL, P. 5). WERE ALL THE ROOMS**
8 **BEING USED AT THE TIME OF THE REFERENCED VISIT?**

9 A. No. At that time, I was maintaining all the records at my Fitch &
10 Associates office. However, the property was being utilized then and
11 continues to be utilized now for the LCSW operations.

12

13 **Q. PLEASE DESCRIBE THE OFFICE SPACE.**

14 A. The structure is built on a crawl space and has no basement. There is
15 parking available for both the Company and visitors on the property. The
16 following is a diagram of the space that is available:



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Q. HOW IS THIS SPACE BEING UTILIZED?

A. LCSW uses the identified space as follows:

- "A" – This is the space immediately adjacent to the front door. It is used as the reception area for the facility. It has a couch, table and chair.
- "B" – This space is used for the display of plat maps and utility maps associated with the utility's certificated territory, a six foot table and all the work orders associated with inspection, shut offs and closing dates.
- "Furnace" – This room houses the furnace for the facility.

1 - "Private room" – This room contains the telephone and answering machine
2 for the utility. It is used to provide space for private appointments with
3 customers and completion of application for service, as it is the only room
4 (other than the bathroom and furnace room) that has a door and can be
5 separated from the reception area. There is also a table and a couple of
6 chairs to be used in the referenced meetings.

7

8 **Q. PUBLIC COUNSEL WITNESS ADDO SUGGESTS THAT LCSW IS NOT**
9 **UTILIZING THE ROOM IDENTIFIED AS ROOM "B" (REBUTTAL, P. 8). WHAT**
10 **IS THE STATUS OF THAT ROOM?**

11 A. As stated above, we use that room to display plat maps of the two subdivisions
12 that include the Company's water and sewer facilities. Three walls contain the
13 maps associated with Rockport and two walls contain the maps associated with
14 Bennington. Meters are also stored in this room. We also maintain pictures of
15 the valves and other items found in the system. The information is particularly
16 helpful when we are visited by contractors and others seeking to tie into the
17 LCSW systems. For this purpose, we also have a table that is used during these
18 discussions.

19

20 **Q. ARE THERE ANY OTHER FEATURES OF THIS PROPERTY THAT**
21 **MAKES IT PARTICULARLY APPROPRIATE FOR USE AS THE LCSW**
22 **OFFICE?**

1 A. The location of this property is particularly convenient for the Bennington
2 subdivision. In fact, you can see the Bennington subdivision from the
3 property. It is also laid out such that all visitors can easily get in and out of
4 the parking lot and offices.

5

6 **Q. ARE THERE OTHER ACTIVITIES AT THIS PROPERTY?**

7 A. Yes. The drop box for customer payments is also located at this property.

8

9 **Q. IS THE DROP BOX COMMONLY USED BY CUSTOMERS?**

10 A. Yes. We receive approximately one-third of the monthly payments
11 through the drop box.

12

13 **Q. STAFF WITNESS FERGUSON STATED THAT THAT OFFICE SPACE**
14 **IS OWNED BY THE KALLASH REVOCABLE INTERVIVOS TRUST**
15 **(REBUTTAL, P. 6). IS THIS ACCURATE?**

16 A. There is a deed to the Kallash Revocable Intervivos Trust on file with the
17 Lincoln County Recorder of Deeds. However, in 2009, I executed a
18 Contract for Deed with Mike Lordo. That Contract for Deed granted Mr.
19 Lordo possession of the real estate along with other indices of property
20 ownership. Mr. Lordo has the ability to do with the property whatever he
21 desires. A copy of the Contract for Deed is attached hereto as **Schedule**
22 **DK-1S**. The lease LCSW currently has on the property was negotiated
23 with Mr. Lordo.

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Q. MS. FERGUSON FURTHER STATES THAT IT COMMON FOR SMALL WATER AND SEWER COMPANIES TO OPERATE OUT OF THE OWNERS' HOME (REBUTTAL, P. 6). DO YOU THINK THIS IS PRACTICAL FOR LCSW?

A. No. We have many customers that prefer to drop off, rather than mail, their payments. We also have customers that come to the office to initiate service, fill out applications and to discuss questions about billing and other matters. These are activities that would not be appropriate to be conducted from one's home. Such visits would also be made very difficult by the location of my home. I live far out in the country and a mile long drive-way to the house. That drive-way includes a bridge, which is about 10 feet above a creek. The bridge has no railings. This is not an appropriate location for conducting utility business.

Q. STAFF WITNESS FERGUSON REFERENCES YOUR BELIEF THAT THE RENT FOR 202 SUNSWEPT IS REASONABLE (REBUTTAL, P. 6). WHY DO YOU BELIEVE THAT THE RENT IS REASONABLE?

A. Previously, when I had control over this property, the property was rented to a third party business (a hairdresser/salon) for \$1,200.00 per month. Because of that experience, I believe the \$950 per month reflected in the current lease was, and is, a discount from the market value of the property.

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Q. STAFF WITNESS FERGUSON STATES THAT SHE BELIEVES THAT THERE WAS A 200 SQUARE FOOT OFFICE SPACE AVAILABLE IN TROY FOR \$500 A MONTH, PLUS \$75 IN UTILITIES (REBUTTAL, P. 7). ARE YOU FAMILIAR WITH ANY SUCH PROPERTY?

A. No. I am not familiar with any such property being available at the time LCSW leased the 202 Sunswept property. However, even if I were, such a property would not necessary be a better fit than 202 Sunswept. Ms. Ferguson says this was a unit among four office units that shared certain facilities. I would be surprised if any such unit would provide for the convenient drop box location, parking and ease of access for customers that are present at 202 Sunswept.

Q. PUBLIC COUNSEL WITNESS ADDO STATES THAT A REVIEW OF TROY RENTALS “REVEALED AN AVERAGE RENTAL RATE OF 78¢ PER SQUARE FOOT PER MONTH” (REBUTTAL, P. 5). IS THIS A USEFUL WAY TO REVIEW AND SET OFFICE RENTAL EXPENSE?

A. Not unless you are comparing spaces of similar size and condition. Generally, per square foot rents will be greater, the smaller the area being leased. This can be seen from Mr. Addo’s own testimony. He indicates that the 202 Sunswept space is being rented for an equivalent of \$1.46 per square foot per month, and that the Staff’s suggestion of a 200 square foot space would rent for \$2.50 per square foot per month. The 202

1 Sunswept space, while larger, is actually cheaper per square foot. Mr.
2 Addo's 78¢ would only be achievable if one were renting a much, much
3 larger space than the 202 Sunswept property, resulting in a much higher
4 monthly rent amount than what LCSW is currently paying.

5

6

LAND

7 **Q. STAFF WITNESS FERGUSON STATES THAT LCSW EITHER COULD**
8 **NOT OR WOULD NOT PROVIDE LAND DEEDS TO STAFF RELATED**
9 **TO LCSW OWNERSHIP OF PROPERTY IN THE BENNINGTON AND**
10 **ROCKPORT SUBDIVISIONS (REBUTTAL, P. 14). HAS LCSW**
11 **PROVIDED THOSE DEEDS?**

12 A. Yes. Several times, to include shortly after they were initially executed in
13 2012. Most recently, they were provided in response to a Staff data
14 request. Attached as **Schedules DK-2S and DK-3S**, are the referenced
15 deeds.

16

17 **Q. WHAT PORTIONS OF THE BENNINGTON AND ROCKPORT**
18 **SUBDIVISIONS DO THESE DEEDS CONVEY TO LCSW?**

19 A. The sewage treatment plant and lot, all lines, pipes and apparatus of the
20 sewer system and the sewer easements for both the Bennington and
21 Rockport subdivisions.

22

1 **Q. WHAT DO YOU BELIEVE TO BE THE VALUE OF THE REAL ESTATE**
2 **THAT HAS BEEN CONVEYED?**

3 A. The Bennington real estate conveyed to LCSW was worth \$20,000 and
4 the Rockport real estate conveyed to LCSW was worth \$38,000.

5

6 **Q. ON WHAT DO YOU BASE THIS OPINION?**

7 A. My knowledge of the market. I have been an active participant in the
8 Lincoln County real estate market for approximately 34 years. More
9 particularly, I know that lots in the Bennington subdivision have sold for
10 approximately \$33,000 - \$45,000. Lots in the Rockport subdivision have
11 sold for approximately \$31,500 - \$45,000.

12

13 **ADMINISTRATION & GENERAL SALARY/MANAGEMENT FEES**

14 **Q. STAFF WITNESS FERGUSON DISCUSSES THE STAFF POSITION IN**
15 **REGARD TO FEES ASSOCIATED WITH THE OPERATION OF THE**
16 **LCSW WATER AND SEWER SYSTEMS (REBUTTAL, PP. 18-20) AND**
17 **DESCRIBES THE DUTIES PERFORMED BY YOURSELF AND YOUR**
18 **SPOUSE. HOW WOULD YOU DESCRIBE YOUR DUTIES?**

19 A. I perform duties on a daily and monthly basis such as responding to service-
20 related customer calls, performing the required water sampling, performing
21 inspections of new customer connections, monitoring the operation of the sewer
22 and water systems, reading the water meters, ordering field supplies, installing
23 water meters, and being the Company's contact person for dealings with the

1 Commission and the Department of Natural Resources (DNR). I also check the
2 wells and record master meter readings; negotiate contracts and meet with
3 contractors; spot check the condition of meters and meter pits; periodically check
4 the operation of the sewage treatment plants; prepare the handheld meter
5 reading device for meter readings; review monthly reports produced by the billing
6 program, with particular attention paid to meter exception reports; contact
7 customers if the billing program reports indicate unusual usage patterns; handle
8 sewage treatment plant problems due to electric service outages; spray water
9 and sewer facility grounds for weed/grass control; assist the contract operator on
10 plant repairs; clean the sewage treatment plant clarifiers as requested by the
11 contract operator; participate in weekly phone conferences with the contract
12 operator, monthly meetings with the contract operator; submit monitoring and
13 sampling reports to the DNR; and accompanying PSC and DNR personnel on
14 system inspections.

15
16 **Q. WHAT DUTIES ARE PERFORMED BY YOUR SPOUSE?**

17 A. My wife performs functions for the utility on a daily and monthly basis to include
18 items such as producing customer bills, picking up and depositing customer
19 payments, answering customer calls, monitoring the Company's answering
20 machine, meeting with new applicants, general bookkeeping, purchasing office
21 supplies and dealing with title companies on property transfers. She also
22 responds to customer inquiries regarding billings; posts accounts receivable;
23 monitors accounts payable; prepares the billing program for meter readings;

1 reviews monthly reports produced by the billing program, with particular attention
2 paid to meter exception reports; reads meters; prepares documents for tax
3 accountant; and prepares the sales tax report for the Missouri Department of
4 Revenue.

5
6 **Q. STAFF WITNESS FERGUSON INDICATES THAT THE TIME SHEET**
7 **INFORMATION YOU PROVIDED TO STAFF WAS NOT USEABLE TO**
8 **DETERMINE THE TIME YOU SPENT ON YOUR ACTIVITIES**
9 **(REBUTTAL, PP. 18-19). WHAT INFORMATION DID YOU PROVIDE**
10 **FOR THIS PURPOSE?**

11 A. I maintained a spiral notebook in which I recorded notes of my activities,
12 along with times and mileage, for those tasks beyond the regular
13 operation checks and visits I must make to the water and sewer systems.
14 An example of one of the pages from that notebook is attached as
15 **Schedule DK-4S.**

16
17 **Q. HAVE YOU HAD SOME FRUSTRATION IN DETERMINING WHAT TIME**
18 **SHEET INFORMATION WILL BE SUFFICIENT FOR THE STAFF**
19 **PURPOSES?**

20 A. Yes. I have much frustration in this regard. I have had Auditing section
21 staff tell me my methods were not sufficient, while Water & Sewer
22 Department Staff have indicated the same methods are fine. It is difficult

1 for me to know what is or isn't sufficient for the Commission's purposes
2 given the mixed messages.
3

4 **Q. WILL YOU USE THIS SAME METHOD ON A GOING-FORWARD**
5 **BASIS?**

6 A. No. I have begun to record references to my LCSW activities on my
7 personal smart phone calendar. These entries can then be printed out
8 and maintained in the LCSW offices.
9

10 **Q. BASED UPON YOUR RECORDS AND YOUR EXPERIENCE, HOW**
11 **MUCH TIME DO YOU SPEND ON LCSW ACTIVITIES ON A MONTHLY**
12 **AND ANNUAL BASIS?**

13 A. LCSW witness Johansen has included 57 hours a month in his
14 calculations, or 684 hours a year. This would be a minimum amount of
15 time I will spend on LCSW activities in a month. I believe it is almost
16 always greater than this. For example, I check the well pumps and record
17 readings from 13-15 times a month. Each of these trips is a 20 mile round
18 trip and takes an hour and a half. I also inspect and perform maintenance
19 at the treatment plants every other day. This is also a 20 mile round trip
20 and takes approximately two and one-half hours. Just completing these
21 operations duties takes 57 hours per month before meter reading, billing,
22 inspection of connections and the many other tasks must be performed. .
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PAYROLL AND INCOME TAXES

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Q. STAFF WITNESS FERGUSON STATES THAT THE STAFF PROVIDES NO PAYROLL EXPENSE BECAUSE THE COMPANY HAS MADE A MANAGEMENT DECISION TO FLOW TAXES THROUGH TO THE INDIVIDUAL MEMBERS (REBUTTAL, P. 20). SHE ALSO INDICATES THAT BECAUSE LCSW HAS NO DIRECT TAX LIABILITY, THERE SHOULD BE NO CONSIDERATION FOR INCOME TAXES (REBUTTAL, P. 24). ARE THERE STILL TAXES PAID ASSOCIATED WITH THE LCSW OPERATIONS?

A. Yes.

Q. HOW DO THOSE TAXES GET PAID?

A. Instead of treating myself and my spouse as “employees,” we allow any gains to flow through to our individual tax returns where they are taxed at an individual/joint tax rate. Thus, there are state and federal taxes paid on any gain derived from the utility operations. However, as pointed out above, Staff also takes the position that there should be no income taxes factored into LCSW’s rate because the entity does not file its own tax return. Thus, LCSW gets no consideration for taxes that are incurred as a result of the Company’s operations.

Q. WHAT DOES THIS STAFF APPORACH SUGGEST TO YOU IN REGARD TO FUTURE OPERATIONS OF THE COMPANY?

1 A. Staff's approach provides incentive for LCSW to operate in a less efficient
2 manner. LCSW's current structure minimizes the taxes associated with
3 LCSW's operations. However, because LCSW receives no recognition of
4 the taxes paid in its rates, it would be better off if it treated myself and my
5 spouse as employees, paid the payroll taxes associated with our salaries
6 and have those payroll taxes reflected in rates. This would be less
7 efficient and cost-effective for our customers, but a reasonable response,
8 from an owners' perspective, to the Staff approach.

9

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SLUDGE HAULING

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**Q. STAFF WITNESS FERGUSON STATES THAT WHILE LCSW ASSERTS
12 THAT IT PAYS \$0.14 PER GALLON FOR SLUDGE HAULING, THE
13 AMOUNT IS NOT CONSISTENTLY APPLIED (REBUTTAL, P. 20).
14 PLEASE DESCRIBE HOW SLUDGE HAULING CHARGES ARE
15 CALCULATED?**

16

A. We believe the \$0.14 per gallon pumped from the clarifiers is consistently
17 applied. There have been a few times where there was pumping from the
18 ground that would have been treated differently. However, those events
19 are not anticipated in the future.

20

21

**Q. HOW DID YOU DETERMINE THE RATE TO BE PAID FOR SLUDGE
22 HAULING?**

22

1 A. When I reviewed third party rates many years ago, the lowest rate I was
2 quoted was \$0.15 per gallon pumped. I chose an amount that was less.
3 Since then, third party rates have risen to \$0.17 per gallon pumped, while
4 the rate I use has remained the same.

5

6

VEHICLE LOGS

7 **Q. STAFF WITNESS FERGUSON SUGGESTS THAT LCSW KEEPS NO**
8 **VEHICLE LOGS AND “NO DOCUMENTATION EXISTS AS TO THE**
9 **AMOUNT OF TRAVEL BEING CONDUCTED BY LCSW” (REBUTTAL,**
10 **22). DO YOU AGREE WITH THIS ALLEGATION?**

11 A. No. I do keep records for vehicle use associated with LCSW activities.

12

13 **Q. WHAT RECORDS DO YOU KEEP?**

14 A. I utilize the same notebook referenced previously in the Administration &
15 General Salary/Management Fees section of this testimony, combined
16 with the well logs.

17

18 **Q. HOW CAN MILEAGE BE DETERMINED UTILIZING THESE RECORDS?**

19 A. For the standard trips I must make in regard to the daily operation of the
20 systems (i.e. to check the well pumps and record meter readings and to
21 check on the treatment plants), there is a consistent and never changing
22 distance that can be applied to derive mileage. Other trips are noted
23 specifically in my notebook.

1

2 **Q. WERE YOUR MILEAGE RECORDS PROVIDED TO THE STAFF?**

3 A. Yes.

4

5 **Q. DID LCSW WITNESS JOHANSEN USE YOUR RECORDS TO
6 DETERMINE HIS RECOMMENDATIONS FOR VEHICLE EXPENSE?**

7 A. Yes.

8

9 **OFFICE SUPPLIES AND NON-BILLING**
10 **(MAILING OF ANNUAL CONSUMER CONFIDENCE REPORT)**
11

12 **Q. STAFF WITNESS FERGUSON COMPUTES EXPENSES ASSOCIATED
13 WITH THE MAILING OF LCSW'S CONSUMER CONFIDENCE REPORT
14 BASED ON HER POSITION THAT "THE CONSUMER CONFIDENCE
15 REPORT SHOULD BE MAILED ALONG WITH MONTHLY CUSTOMER
16 BILLING SO AS NOT TO INCUR EXTRA POSTAGE COSTS"
17 (REBUTTAL, PP. 27-28). DOES LCSW MAIL THE CONSUMER
18 CONFIDENCE REPORT SEPARATE FROM ITS BILLS?**

19 A. Yes.

20

21 **Q. WHY DOES LCSW MAIL THE REPORT SEPARATELY?**

22 A. LCSW is not able to include the report in the regular billing envelope.
23 Further, the report is not always received in conjunction with the
24 Company's billing cycle. LCSW prefers to get this information to the

1 customers as soon a possible and to make sure it does so within the time
2 allowed by the Department of Natural Resources.

3
4 **CUSTOMER SERVICE AND BUSINESS OPERATIONS**

5 **Q. STAFF WITNESS TAMMY VIETH PROVIDES FIVE**
6 **RECOMEMNDATIONS CONCERNING THE COMPANY’S**
7 **OPERATIONS IN HER REBUTTAL TESTIMONY (REBUTTAL, PP. 3-4).**
8 **HAVE YOU REVIEWED THOSE ITEMS?**

9 A. Yes.

10
11 **Q. MS. VIETH FUTHER STATES THAT AFTER COMMUICATIONS WITH**
12 **COMPANY PERSONNEL, “IT IS STAFF’S BELIEF THE COMPANY**
13 **INTENDS TO IMPLEMENT THE RECOMMENDATIONS” (REBUTTAL,**
14 **P. 4). IS THAT AN ACCURATE STATEMENT?**

15 A. Yes, with one clarification. LCSW has implemented these
16 recommendations and, with only one exception, has been following these
17 recommendations for some time.

18
19 **Q. WHAT IS THE EXCEPTION?**

20 A. Item 5 references that LCSW shall develop and distribute to current and
21 future customers certain written information. LCSW worked with Staff to
22 develop this brochure and had it available. However, it did not always

1 understand Staff's desire that the brochure be mailed to then current
2 customers. LCSW has since completed this mailing.

3

4

FINANCIAL RECORDS

5

**Q. PUBLIC COUNSEL WITNESS TED ROBERTSON MAKES A
6 STATEMENT THAT HIS REVIEW "INDICATED THAT THE OWNERS
7 OF THE UTILITIES ARE INTERMINGLING FINANCIAL ACTIVITIES
8 THAT ARE OF A PERSONAL NATURE WITH THOSE OF THE
9 REGULATED UTILITIES" (REBUTTAL, P. 4). HAVE YOU
10 INTERMINGLED PERSONAL FINANCES WITH THOSE OF LCSW?**

11

A. I have not. LCSW has one checking account in the name of the limited
12 liability company. All bank statements concerning this checking account
13 have been provided to Staff and the Public Counsel. It is easy enough to
14 see that all revenues are deposited into the LCSW checking account and
15 to see what expenditures are made from that checking account. The
16 expenditures that have been made are legitimate items associated with
17 the operation of the water and sewer utilities.

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Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

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A. Yes, it does.

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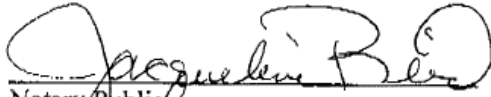
AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF Lincoln)

I, Dennis Kallash, state that I am a Member of Lincoln County Sewer & Water, LLC and, that the answers to the questions posed in the attached Surrebuttal Testimony are true to the best of my knowledge, information and belief.

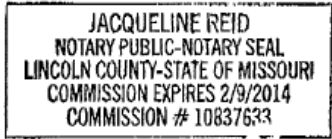


Subscribed and sworn to before me this 23 day of October, 2013.



Notary Public

My Commission Expires: 02/09/2014



(SEAL)